



# California High-Speed Rail Merced to Bakersfield Business Case Study

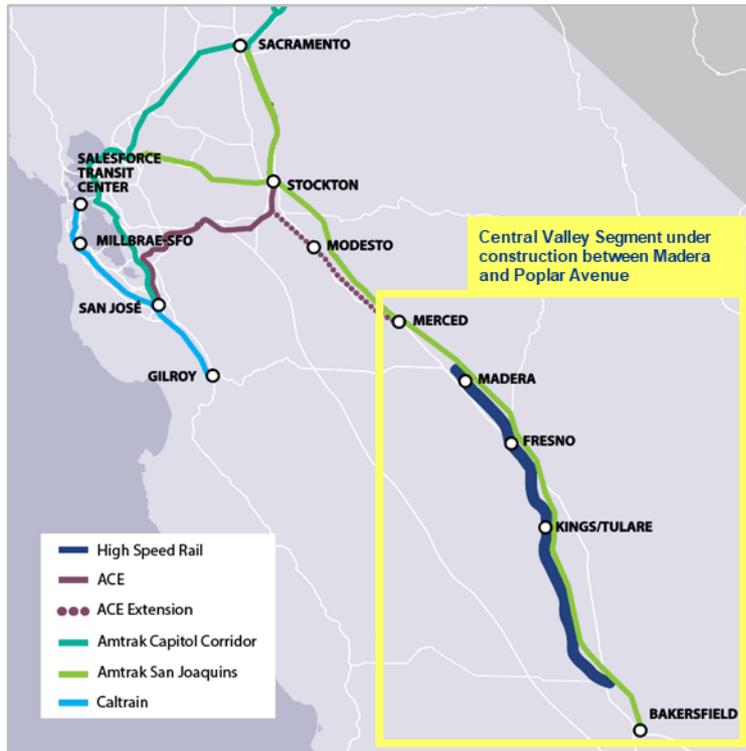
KPMG LLP

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February 18, 2020

# Business Case Study on high-speed rail interim service between Merced and Bakersfield

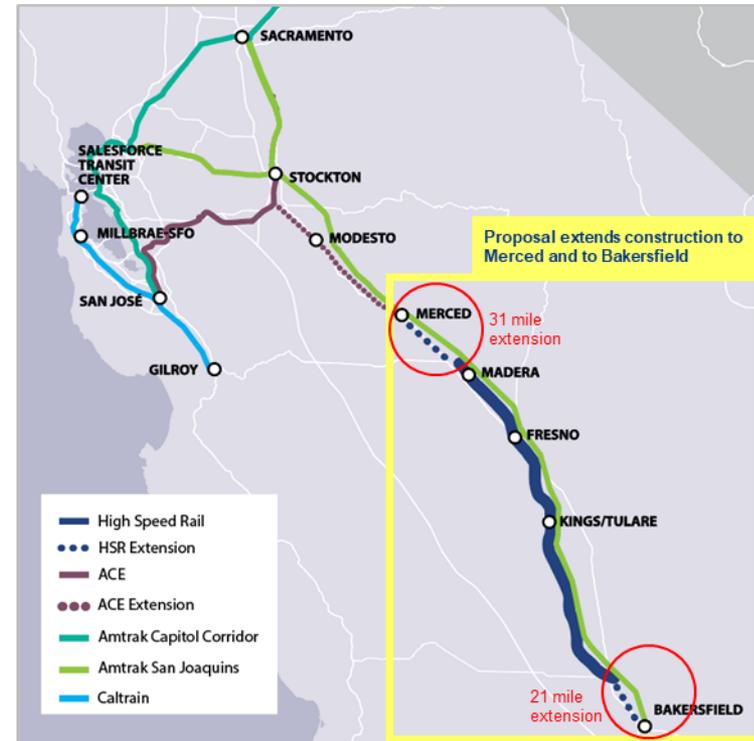


# The proposed extension is based on system-wide rail infrastructure improvements



## Current Context

119-mile High-Speed Rail Central Valley Segment (CVS) is under construction



## Proposed Extension

Extend construction to Merced and Bakersfield and begin 171-mile Interim Service



## Study includes conclusions and recommendations for Interim Service



Central Valley Segment assets are under construction. When complete, they will have long term maintenance obligations which require funding.

### **Interim Service utilizes and maintains the Authority's assets**

Interim Service utilizes Authority assets and can mitigate financial risk related to long term maintenance obligations.

### **Estimated cost is within current budget estimate**

Projected funding is \$20.6 to \$23.4 billion. Assuming funding and estimate stability, the construction cost is \$20.4 billion.

### **Interim Service reduces state rail costs, but does not break even**

Interim Service reduces state subsidy by \$40 million in base case scenario but operations do not break even on a standalone basis.

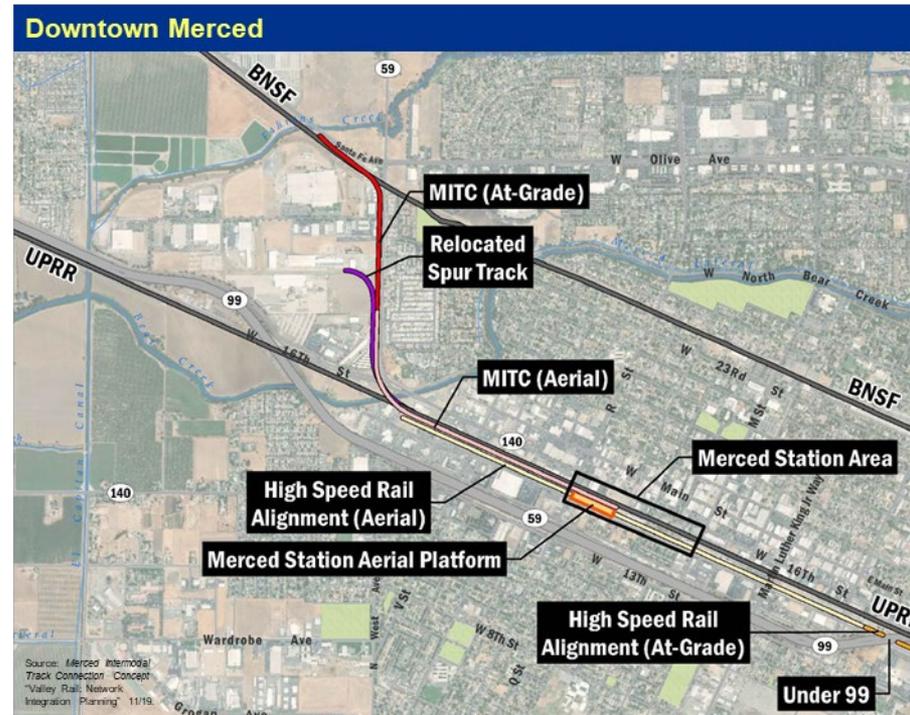
### **Enhanced ridership due to creation of mobility hub in Merced**

Subject to completion of other regional capital investments, passenger trips would increase from nearly 3 million today to 8.8 million by 2029.

# Ridership and revenue forecasts are dependent on cross-platform connection in Merced



Merced is the potential hub for converging current rail services serving the Silicon Valley and Central Valley.



Ridership and revenue forecasts are supported by cross-platform solution for passengers.



## Business Case Study Conclusions



Increased ridership in the Central Valley corridor would contribute to the cost of operations and maintenance.

### **Additional capital investments need to be completed by partners**

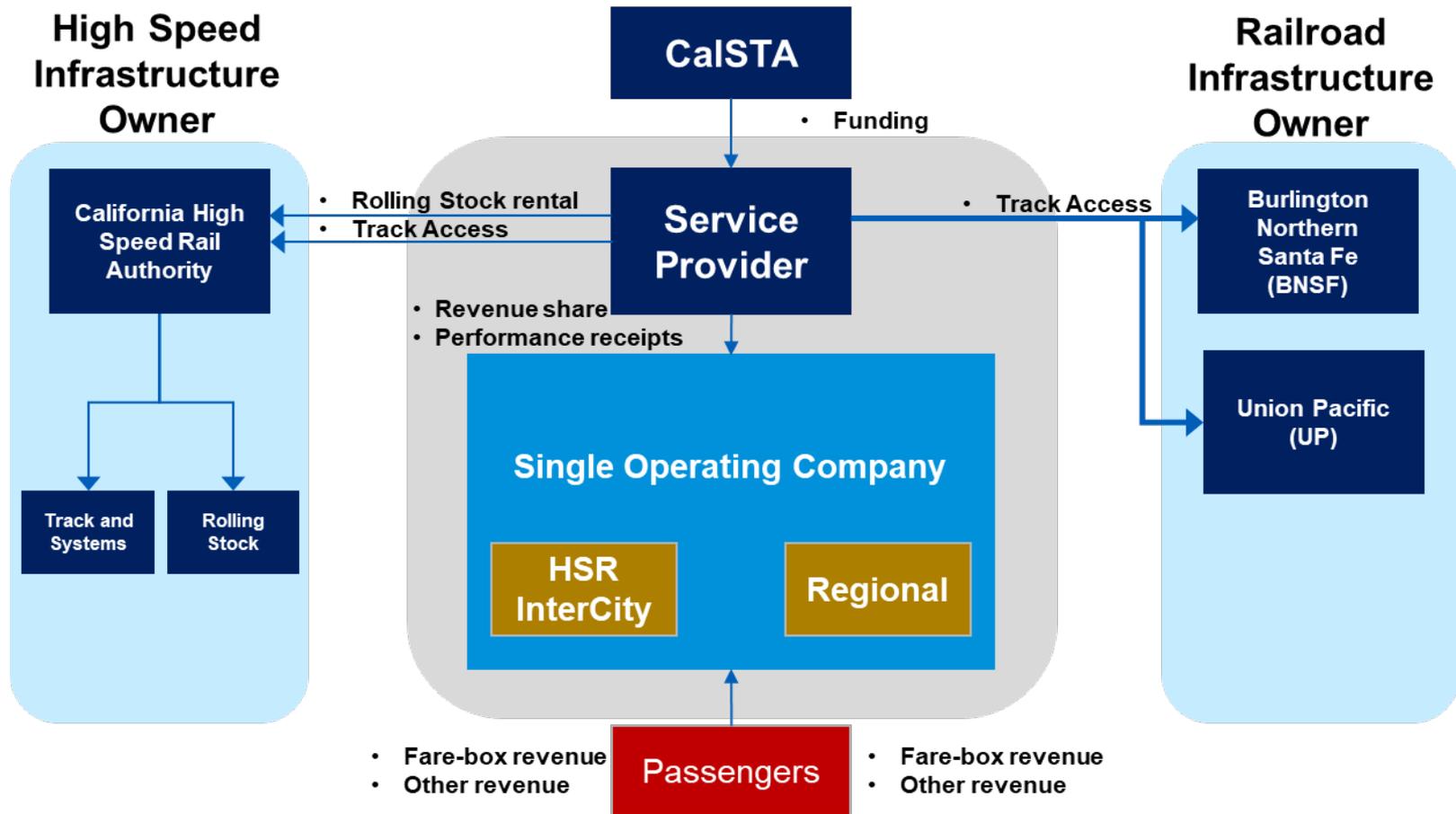
Partnerships with CalSTA, the extension of ACE and the funding and implementation of partner projects needs to occur.

### **Interim Service requires its own business model**

The Authority might position itself as an infrastructure owner that leases its assets for Interim Service.

# Potential Interim Service Business Model

## *Single Train Operating Company – Integrated Services*





## Business Case Study Conclusions



The Authority's proposed track and systems and rolling stock contracts include obligations for asset maintenance.

### **Long term contracts affect Interim Service**

A potential Interim Service partner would have to accept long-term contractual terms related to the Authority's track, systems and rolling stock.

### **Delineation of capital program and Interim Service risks**

Managing risk will need ongoing revalidation of issues such as ridership; revenue; and operations, maintenance and construction costs.



## Business Case Study Conclusions



Direct and indirect economic impact of infrastructure investment is significant and complements environmental and mobility enhancements.

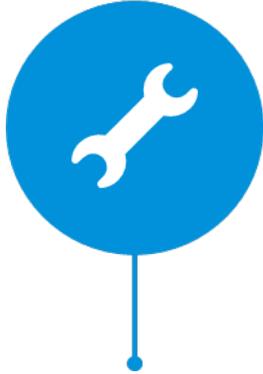
### **Significant socio-economic benefits based on scale of work**

Authority models project \$37.9 billion in economic activity combined with benefits of shorter travel times and lower emissions.

### **Positive return on investment is possible as system expands**

When incorporated into the Silicon Valley to Central Valley Line, the extensions would support a positive return on investment.

# Recommendations outline potential approach



## Implement Interim Services to ensure assets are maintained

- Reduces risk of unutilized, stranded assets
- Unlocks economic, environmental and mobility benefits within San Joaquin Valley



## Develop an interagency agreement to establish business model

- Interim Service requires its own business model
- Develop a memorandum of understanding (MOU) with regional partners to develop, utilize and maintain assets



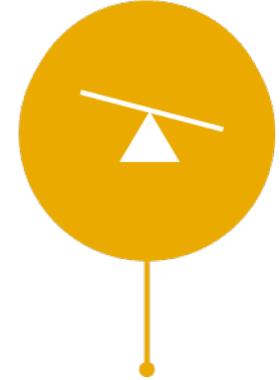
## Secure funding streams to complete capital program

- Secure remaining Proposition 1A funding, as soon as FY 2021-22
- Continuously monitor Cap-and-Trade auctions



## Complete preparatory work in advance of executing major contracts

- Complete the MOU
- Ensure design-build contracts are fully aligned with track and systems contracts
- Complete acquisition of right-of-ways for Central Valley Segment



## Incrementally advance extensions to manage risk

- Extensions to Bakersfield and Merced can be advanced incrementally, once certain milestones are reached and risks mitigated
- Continuously update forecasts to ensure that Authority is managing risk within its funding profile

# Discussion





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